

SALEM CITY CORPORATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

SALEM CITY CORPORATION

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CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION
ESTABLISHED 1974

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
Salem City Corporation
Salem, UT

December 31, 2009

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Salem City Corporation (City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

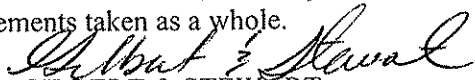
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Salem City Corporation as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2009, on our consideration of Salem City Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis, on pages 2 through 8, and budgetary comparison information, on page 41, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Salem City Corporation's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


GILBERT & STEWART
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Salem City, we offer readers of Salem City's financial statements this narrative overview and analysis of the financial activities of Salem City for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- The total net assets of Salem City are \$45,822,222 at June 30, 2009 are compared to \$44,883,423 for the prior year.
- At the end of the current fiscal year, Salem City's governmental activities reported combined ending fund balances of \$13,690,315. Of this amount \$592,545 is available for spending at the government's discretion (unreserved net assets).

Reporting the City as a Whole

This discussion and analysis is intended to serve as an introduction to Salem City's basic financial statements. Salem City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of Salem City's finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of Salem City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of Salem City is improving or deteriorating. However, you will also need to consider other nonfinancial factors.
- *The statement of activities* presents information showing how the city's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of Salem City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The government-wide financial statements can be found on pages 9 and 10 of this report.

Reporting the City's Most Significant Funds

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Salem City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the city can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- *Governmental Funds* – These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The governmental fund financial statements can be found on pages 11 through 14 of this report.

The major governmental funds (as determined by generally accepted accounting principles) are the General Fund and the Capital Projects fund. The balance of the governmental funds are determined to be non-major and are included in the combined statements within this report.

- *Proprietary Funds* – Salem City maintains two types of proprietary funds.
 - *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Salem City uses enterprise funds to account for its Water, Sewer, Electric, Pressurized Irrigation and Solid Waste.
 - *Internal Service Funds* – are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The internal service funds consist of a Motor Pool Fund and a Data Processing Fund.

The basic proprietary fund financial statements can be found on pages 15 through 18 of this report.

- *Fiduciary Funds* – Salem city maintains one type of fiduciary fund. Trust funds are used to account for assets held by the City as trustee for individuals. The City has one trust fund for Cemetery Perpetual Care. This is a trust fund used to account for monies received for the perpetual care of cemetery lots.

The basic fiduciary funds financial statements can be found on pages 42 and 43 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Salem City, assets exceeded liabilities by \$45,822,222.

The largest portion of Salem City's net assets reflects its investment in capital assets (e.g., land, building, infrastructure assets, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table summarizes the City's net assets.

City's Net Assets

	Governmental Activities		Business - Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 1,856,629	\$ 3,890,280	\$ 4,777,326	\$ 6,755,677	\$ 6,633,955	\$ 10,645,957
Capital assets	16,561,486	15,321,520	38,295,318	35,077,083	54,856,804	50,398,603
Total Assets	<u>18,418,115</u>	<u>19,211,800</u>	<u>43,072,644</u>	<u>41,832,760</u>	<u>61,490,759</u>	<u>61,044,560</u>
Long-term debt outstanding	3,896,263	3,853,463	10,323,865	10,046,865	14,220,128	13,900,328
Other liabilities	831,537	967,409	616,872	1,293,400	1,448,409	2,260,809
Total Liabilities	<u>4,727,800</u>	<u>4,820,872</u>	<u>10,940,737</u>	<u>11,340,265</u>	<u>15,668,537</u>	<u>16,161,137</u>
Net assets						
Invested in capital assets - net of related debt	12,665,224	11,278,203	29,432,470	24,561,928	42,097,694	35,840,131
Restricted	432,546	612,776	1,156,007	1,128,306	1,588,553	1,741,082
Unrestricted	592,545	2,499,949	1,543,430	4,802,261	2,135,975	7,302,210
Total net assets	<u>\$ 13,690,315</u>	<u>\$ 14,390,928</u>	<u>\$ 32,131,907</u>	<u>\$ 30,492,495</u>	<u>\$ 45,822,222</u>	<u>\$ 44,883,423</u>

Government activities increased Salem City's net assets by \$588,091, thereby accounting for 6% of the total growth in the net assets of Salem City. The elements of this increase are as follows:

	Governmental Activities		Business - Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues						
Program Revenues:						
Charges for services	\$ 1,816,058	\$ 1,694,059	\$ 5,278,099	\$ 5,005,451	\$ 7,094,157	\$ 6,699,510
Operation grants and contributions	231,672	240,993	-	8,107,020	231,672	8,348,013
Capital grants and contributions	434,103	1,293,322	2,341,034	666,669	2,775,137	1,959,991
General revenues:						
Property taxes	427,998	344,816		39,316	427,998	384,132
Other taxes	887,741	973,232			887,741	973,232
Other	108,731	54,465	66,625	324,971	175,356	379,436
Total revenues	<u>\$ 3,906,303</u>	<u>\$ 4,600,887</u>	<u>\$ 7,685,758</u>	<u>\$ 14,143,427</u>	<u>\$ 11,592,061</u>	<u>\$ 18,744,314</u>
Expenses:						
General government	\$ 1,563,931	\$ 1,278,941	\$ 828,428	\$ -	\$ 2,392,359	\$ 1,278,941
Public Safety	1,052,087	1,018,193	544,575	-	1,596,662	1,018,193
Highways/streets	929,684	693,540	3,570,716	-	4,500,400	693,540
Parks & recreation	1,173,546	969,901	587,583	-	1,761,129	969,901
Interest on long term debt	140,397	84,005	262,315		402,712	84,005
Water				796,189	-	796,189
Sewer				582,045	-	582,045
Electric				2,795,166	-	2,795,166
Pressurized Irrigation				310,373	-	310,373
Waste				244,821	-	244,821
Total Expense	<u>4,859,645</u>	<u>4,044,580</u>	<u>5,793,617</u>	<u>4,728,594</u>	<u>10,653,262</u>	<u>8,773,174</u>
Increase in net assets	(953,342)	556,307	1,892,141	9,414,833	938,799	9,971,140
Transfers	252,729	21,240	(252,729)	(21,240)	-	-
Net increases in net assets	(700,613)	577,547	1,639,412	9,393,593	938,799	9,971,140
Net assets beginning	14,390,928	13,813,381	30,492,495	21,098,902	44,883,423	34,912,283
Net assets ending	<u>\$ 13,690,315</u>	<u>\$ 14,390,928</u>	<u>\$ 32,131,907</u>	<u>\$ 30,492,495</u>	<u>\$ 45,822,222</u>	<u>\$ 44,883,423</u>

Financial Analysis of the Government's Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

At the end of the current fiscal year, the City's governmental funds reported combined fund balances of \$895,091. Of this total amount \$462,545 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$143,183 while total fund balance reached \$575,729. As a measure of the general fund's liquidity, it may be useful to compare the total fund balance to total fund expenditures. The fund balance represents 16% of total general fund expenditures.

The city maintains enterprise funds to account for the business-type activities of the city. The information is found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water, sewer, electrical, pressurized irrigation and solid waste at the end of the year amounted to \$1,606,704. Revenues and expenditures for normal operation remained fairly stable with some increases in both areas.

General Fund Budgetary Highlights

During the fiscal year, the General Fund's original budget was amended from an original budget expenses total of \$3,653,000 to a final budget of \$3,914,143, an increase of \$260,813. The changes are summarized as follows:

• General Government	\$ 166,421
• Public Safety	(108,655)
• Highways and Public Works	48,855
• Parks and Recreation	<u>154,192</u>
Total	<u>\$260,813</u>

Capital Asset and Debt Administration

Salem City's investment in capital assets for its governmental and proprietary fund activities as of June 30, 2009 amounts to \$54,856,804 (net of accumulated depreciation). The investments in capital assets include land, buildings, improvements, machinery and equipment, and infrastructure. There was a total increase in the City's investment in fixed assets for the current year. The governmental activities had an increase of \$2,174,155 and business-type activities had a \$3,755,192 increase.

Major capital asset events during the current fiscal year including improvements to new subdivisions as follows:

• City Office additions	\$ 1,044,363
• Road additions	793,526
• Culinary Water additions	119,903
• Pressurized Irrigation additions	1,950,850
• Sewer Line & Storm Drain additions	1,054,589
• Electrical additions	616,888
• Motor Pool additions	32,854

Salem City's Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 339,909	\$ 278,794	\$ 1,038,703	\$ 878,703	\$ 1,378,612	\$ 1,157,497
Buildings	2,816,203	851,985	4,084	4,269	2,820,287	856,254
Improvements	1,148,370	1,162,540	21,863,166	20,512,746	21,661,116	21,675,286
Equipment	666,002	724,349	176,526	234,375	842,528	958,724
Infrastructure	11,365,470	11,318,733	-	-	11,365,470	11,318,733
Water Rights	-	-	899,222	847,968	899,222	847,968
Construction in progress	225,532	985,119	14,313,617	12,599,022	14,539,149	13,584,141
Total net assets	<u>\$ 16,561,486</u>	<u>\$ 15,321,520</u>	<u>\$ 38,295,318</u>	<u>\$ 35,077,083</u>	<u>\$ 53,506,384</u>	<u>\$ 50,398,603</u>

Additional information on the City's capital assets can be found in the footnotes to this financial report.

Long-term debt. At the end of the current year, the city had total bonded debt outstanding of \$13,425,861. Of this amount \$1,930,000 comprises debt backed by the full faith and credit of the government and \$11,495,861 is debt that is secured by specific revenue sources (i.e., revenue bonds).

During the current fiscal year the City's total outstanding debt decreased by \$312,392.

Salem City's Outstanding Debt General Obligation and Revenue Bonds

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
General Obligation Bonds	\$ -	\$ -	\$ 1,930,000	\$ 2,175,000	\$ 1,930,000	\$ 2,175,000
Revenue Bonds	3,458,000	3,500,000	8,037,861	8,227,861	11,495,861	11,727,861
Total Bonds	<u>\$ 3,458,000</u>	<u>\$ 3,500,000</u>	<u>\$ 9,967,861</u>	<u>\$ 10,402,861</u>	<u>\$ 13,425,861</u>	<u>\$ 13,902,861</u>

Salem City's most recent bond issue had a rating of "AAA" from Moody's Investors Service, Inc.

Additional information on the City's long-term debt can be found in the footnotes to this financial report.

Economic Factors and Next Year's Budgets and Rates

- The General Fund budget for the fiscal year-ending June 30, 2009 reflects an increase of 26% over the final fiscal year ending, June 30, 2008.
- Small commercial businesses in Salem are increasing.

Request for Information

This financial report is designed to provide a general overview of Salem City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Salem City, Finance Director, P.O. Box 901, Salem, Utah, 84653.

BASIC FINANCIAL STATEMENTS

SALEM CITY
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,284,082	\$ 1,720,951	\$ 3,005,033
Cash - restricted	-	1,713,198	1,713,198
Receivables - net	454,111	438,308	892,419
Inventories	-	271,250	271,250
Equity in joint venture	-	407,173	407,173
Deferred bond financing cost - net	118,435	226,446	344,881
Capital assets (net of accumulated depreciation):			
Land	339,909	1,038,703	1,378,612
Buildings	2,816,203	4,084	2,820,287
Improvements	1,148,370	21,863,166	23,011,536
Equipment	666,002	176,526	842,528
Infrastructure	11,365,471	-	11,365,471
Water rights and stock	-	899,222	899,222
Construction in progress	225,532	14,313,617	14,539,149
Total assets	<u>18,418,115</u>	<u>43,072,644</u>	<u>61,490,759</u>
LIABILITIES			
Accounts payable and accrued liabilities	498,189	302,440	800,629
Loans Payable	-	115,758	115,758
Bond interest payable	47,379	135,170	182,549
Bonds and capital leases payable - current	275,942	579,221	855,163
Internal balances	(19,341)	19,341	-
Deferred revenue	305,310	44,163	349,473
Bonds and capital leases payable - noncurrent	3,620,321	9,744,644	13,364,965
Total liabilities	<u>4,727,800</u>	<u>10,940,737</u>	<u>15,668,537</u>
NET ASSETS			
Invested in capital assets, net of related debt	12,665,224	29,432,470	42,097,694
Restricted for debt and capital improvements	432,546	1,156,007	1,588,553
Unrestricted	592,545	1,543,430	2,135,975
Total net assets	<u>\$ 13,690,315</u>	<u>\$ 32,131,907</u>	<u>\$ 45,822,222</u>

See accompanying notes.

SALEM CITY
Statement of Activities
For the Year Ended June 30, 2009

Function/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions	Primary Government		
			Grants and Contributions			Governmental Activities	Business-type Activities	Total
Primary government:								
Governmental activities:								
General government	\$ 1,563,931	\$ 1,361,991	\$ 14,909	\$ -	\$ -	\$ (187,031)	\$ -	\$ (187,031)
Public safety	1,052,087	162,883	5,641	87,825		(795,738)	-	(795,738)
Highways and public works	929,684	-	211,122	272,644		(445,918)	-	(445,918)
Parks and recreation	1,173,546	291,184	-	73,634		(808,728)	-	(808,728)
Interest on long-term debt	140,397	-	-	-		(140,397)	-	(140,397)
Total governmental activities	4,859,645	1,816,058	231,672	434,103		(2,377,812)	-	(2,377,812)
Business-type activities:								
Water Utility	828,428	779,442	-	100,737		-	51,751	51,751
Sewer Utility	544,575	475,888	-	930,726		-	862,039	862,039
Electric Utility	3,570,716	3,270,460	-	1,060,605		-	760,349	760,349
Pressurized Irrigation	587,583	481,726	-	248,966		-	143,109	143,109
Waste Utility	262,315	270,583	-	-		-	8,268	8,268
Total business-type activities	5,793,617	5,278,099	-	2,341,034		-	1,825,516	1,825,516
Total primary government	\$10,653,262	\$ 7,094,157	\$ 231,672	\$ 2,775,137		\$ (2,377,812)	\$ 1,825,516	\$ (552,296)
General revenues:								
Property taxes						\$ 427,998	\$ -	\$ 427,998
General sales and use tax						605,597	-	605,597
Franchise tax						282,144	-	282,144
Unrestricted investment earnings						52,378	66,625.00	119,003
Sale of Capital Assets						56,353	-	56,353
Transfers						252,729	(252,729)	-
Total general revenues and transfers						1,677,199	(186,104)	1,491,095
Change in net assets						(700,613)	1,639,412	938,799
Net assets - beginning						14,390,928	30,492,495	44,883,423
Net assets - ending						\$13,690,315	\$32,131,907	\$45,822,222

See accompanying notes.

SALEM CITY
 Balance Sheet
Governmental Funds
 June 30, 2009

	General Fund	Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 964,720	\$ 244,836	\$ 74,526	\$ 1,284,082
Receivables (net):				
Property tax	359,000	-	-	359,000
Other	95,111	-	-	95,111
Due from other funds	-	519	-	519
Total assets	<u>\$ 1,418,831</u>	<u>\$ 245,355</u>	<u>\$ 74,526</u>	<u>\$ 1,738,712</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable & accrued liabilities	\$ 498,189	\$ -	\$ -	\$ 498,189
Due to other Funds	-	-	519	519
Deferred revenue	344,913	-	-	344,913
Total liabilities	<u>843,102</u>	<u>-</u>	<u>519</u>	<u>843,621</u>
Fund Balances:				
Fund Balance Restricted for:				
Roads and recreational activities	432,546	-	-	432,546
Unreserved, reported in:				
General Fund	143,183	-	-	143,183
Special Revenue Funds	-	-	(519)	(519)
Capital Projects	-	245,355	-	245,355
Perpetual Care Fund	-	-	74,526	74,526
Total fund balances	<u>575,729</u>	<u>245,355</u>	<u>74,007</u>	<u>895,091</u>
Total liabilities and fund balances	<u>\$ 1,418,831</u>	<u>\$ 245,355</u>	<u>\$ 74,526</u>	<u>\$ 1,738,712</u>

See accompanying notes.

SALEM CITY
Balance Sheet Reconciliation to
Statement of Net Assets
June 30, 2009

Total fund balances - governmental fund types:	\$ 895,091
Amounts reported for governmental activities in the statement of net assets are different because:	
Consolidation of Internal Service Funds	19,342
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	16,561,486
Governmental funds report the effects of bond issuance costs, whereas these amounts are deferred and shown as net amortization in the statement of net assets.	118,435
Long-term assets including delinquent property taxes are not available to pay expenses of the current period are deferred in the fund statements. However, in the statement of net assets the charges are reported as charges when earned.	39,603
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(3,943,642)</u>
Net assets of government activities	<u><u>\$ 13,690,315</u></u>

See accompanying notes.

SALEM CITY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009

	General Fund	Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 1,276,136	\$ -	\$ -	\$ 1,276,136
Licenses and permits	195,456	-	-	195,456
Intergovernmental	281,459	-	67,769	349,228
Charges for services	1,456,446	-	-	1,456,446
Investment earnings	16,723	34,638	1,017	52,378
Fines and forfeitures	31,691	-	-	31,691
Miscellaneous revenue	176,368	-	-	176,368
Total revenues	<u>3,434,279</u>	<u>34,638</u>	<u>68,786</u>	<u>3,537,703</u>
EXPENDITURES				
Current:				
General government	1,171,778	-	-	1,171,778
Public safety	1,021,945	-	-	1,021,945
Highways and public works	172,304	-	-	172,304
Parks and recreation	1,075,301	-	-	1,075,301
Tax increment Distributions	-	-	340,000	340,000
Capital outlay	-	1,950,270	-	1,950,270
Debt service:				
Principal retirement	40,546	-	21,000	61,546
Interest and fiscal charges	92,602	-	47,795	140,397
Total expenditures	<u>3,574,476</u>	<u>1,950,270</u>	<u>408,795</u>	<u>5,933,541</u>
Excess revenues over (under) expenditures	<u>(140,197)</u>	<u>(1,915,632)</u>	<u>(340,009)</u>	<u>(2,395,838)</u>
Other financing sources (uses)				
Transfers in	301,749	111,485	339,980	753,214
Transfers out	(307,974)	(192,511)	-	(500,485)
Sale of assets	56,353	-	-	56,353
Total other financing sources and uses	<u>50,128</u>	<u>(81,026)</u>	<u>339,980</u>	<u>309,082</u>
Net change in fund balance	<u>(90,069)</u>	<u>(1,996,658)</u>	<u>(29)</u>	<u>(2,086,756)</u>
Fund balances - beginning of year	665,798	2,242,013	74,036	2,981,847
Fund balances - end of year	<u>\$ 575,729</u>	<u>\$ 245,355</u>	<u>\$ 74,007</u>	<u>\$ 895,091</u>

See accompanying notes.

SALEM CITY
Statement of Changes
Reconciliation to Statement of Activities
For the Year Ended June 30, 2009

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ (2,086,756)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded the depreciation in the current period.	937,322
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) net assets	272,644
The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items	116,316
Revenues in the statement of activities do not provide current financial resources are not reported are not reported as revenues and are deferred in the funds	39,603
Internal service funds are used by management to charge the cost of the motor pool and data processing to individual funds. The net asset decrease of the internal service funds are reposted with governmental.	13,875
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>6,383</u>
Change in net assets of governmental activities	<u><u>\$ (700,613)</u></u>

See accompanying notes.

SALEM CITY
Statement of Net Assets
Proprietary Funds
June 30, 2008

	Business-Type Activities - Enterprise				Non-Major Enterprise Fund		Governmental Activities Internal Service Fund
	Water Utility	Sewer Utility	Electric Utility	Pressurized Irrigation	Waste Utility	Total	
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 857,953	\$ 542,445	\$ 30,986	\$ 197,112	\$ 92,455	\$ 1,720,951	\$ -
Accounts receivable - net	71,800	49,888	242,794	46,356	27,470	438,308	-
Inventories	23,826	-	247,424	-	-	271,250	-
Due from other funds	43,933	-	-	-	-	43,933	-
Total current assets	997,512	592,333	521,204	243,468	119,925	2,474,442	-
Noncurrent assets:							
Restricted cash and cash equivalents	37,092	-	116,858	1,559,248	-	1,713,198	-
Land, equipment, buildings and improv.	9,917,454	10,265,685	9,123,830	13,194,131	108,494	42,609,594	1,375,495
Less: Accumulated depreciation	(1,897,911)	(2,175,738)	(1,041,430)	(8,525)	(89,894)	(5,213,498)	(951,124)
Water rights and stock	696,466	-	-	202,756	-	899,222	-
Equity in joint venture	-	213,181	-	-	193,992	407,173	-
Deferred bond financing costs - net	144,697	-	5,902	75,847	-	226,446	-
Total noncurrent assets	8,897,798	8,303,128	8,205,160	15,023,457	212,592	40,642,135	424,371
Total assets	\$ 9,895,310	\$ 8,895,461	\$ 8,726,364	\$ 15,266,925	\$ 332,517	\$ 43,116,577	424,371
LIABILITIES							
Current liabilities:							
Accounts payable and accrued liabilities	\$ 38,625	\$ 1,328	\$ 269,953	\$ 127,704	\$ -	\$ 437,610	10,408
Due to other funds	-	-	-	-	-	-	43,933
Loans Payable	101,610	-	14,148	-	-	115,758	-
Bonds, notes, and capital leases	293,000	67,000	171,221	48,000	-	579,221	63,953
Total current liabilities	433,235	68,328	455,322	175,704	-	1,132,589	118,294
Noncurrent liabilities:							
Bonds and capital leases	1,801,875	170,986	199,783	7,572,000	-	9,744,644	290,602
Deferred Revenue	-	-	44,163	-	-	44,163	-
Total noncurrent liabilities	1,801,875	170,986	243,946	7,572,000	-	9,788,807	290,602
Total liabilities	2,235,110	239,314	699,268	7,747,704	-	10,921,396	408,896
Net Assets:							
Invested in cap assets, net of related debt	6,621,134	7,851,961	7,711,396	7,229,379	18,600	29,432,470	69,816
Restricted for debt and other activities	164,514	332,539	356,519	302,435	-	1,156,007	-
Unrestricted	874,552	471,647	(40,819)	(12,593)	313,917	1,606,704	(54,341)
Total net assets	\$ 7,660,200	\$ 8,656,147	\$ 8,027,096	\$ 7,519,221	\$ 332,517	\$ 32,195,181	\$ 15,475

Adjustment to reflect the consolidation of internal services funds activities related to enterprise fund
Net assets from business-type activities

\$ (63,274)
\$ 32,131,907

SALEM CITY
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2008

	Business-Type Activities - Enterprise				Non-Major Enterprise Fund		Governmental Internal Service Fund
	Water Utility	Sewer Utility	Electric Utility	Pressurized Irrigation	Waste Utility	Total	
Operating revenues:							
Charges for services	\$ 587,784	\$ 387,708	\$ 2,960,820	\$ -	\$ 270,583	\$ 4,206,895	\$ 355,013
Charges pledged for revenue bonds	164,875	87,985	285,000	481,726	-	1,019,586	-
Fees and miscellaneous	26,783	195	24,640	-	-	51,618	-
Total operating revenues	<u>779,442</u>	<u>475,888</u>	<u>3,270,460</u>	<u>481,726</u>	<u>270,583</u>	<u>5,278,099</u>	<u>355,013</u>
Operating expenses:							
Purchased power	-	-	1,463,088	-	-	1,463,088	-
Salaries and wages	99,219	71,686	313,513	163,702	12,436	660,556	12,068
Employee benefits	57,066	39,345	132,164	39,743	1,486	269,804	-
Contractual services	116,378	87,066	125,132	49,727	185,608	563,911	145,886
Supplies and materials	80,395	36,221	863,279	111,199	7,312	1,098,406	72,634
Administrative services	155,260	89,270	512,664	3,637	41,172	802,003	-
Utilities and telephone	16,198	30,683	-	30,261	-	77,142	-
Depreciation	205,826	187,793	134,666	6,640	2,032	536,957	108,718
Amortization of bond financing costs	22,879	-	4,426	2,709	-	30,014	-
Total operating expenses	<u>753,221</u>	<u>542,064</u>	<u>3,548,932</u>	<u>407,618</u>	<u>250,046</u>	<u>5,501,881</u>	<u>339,306</u>
Operating income	<u>26,221</u>	<u>(66,176)</u>	<u>(278,472)</u>	<u>74,108</u>	<u>20,537</u>	<u>(223,782)</u>	<u>15,707</u>
Nonoperating revenues (expenses):							
Property taxes	-	-	-	-	-	-	-
Interest revenue	5,790	701	1,619	58,432	83	66,625	1,201
Impact fees	71,302	109,770	690,260	225,097	-	1,096,429	-
Decrease equity in joint venture	-	-	-	-	(11,853)	(11,853)	-
Interest expense and fiscal charges	(74,477)	(1,861)	(20,935)	(179,818)	-	(277,091)	(20,080)
Total nonoperating revenues (expenses)	<u>2,615</u>	<u>108,610</u>	<u>670,944</u>	<u>103,711</u>	<u>(11,770)</u>	<u>874,110</u>	<u>(18,879)</u>
Net income before contributions & transfers	28,836	42,434	392,472	177,819	8,767	650,328	(3,172)
Transfers in (out)	(68,986)	(65,979)	(109,268)	(4,248)	(4,248)	(252,729)	-
Developers contributions	29,435	820,956	370,345	23,869	-	1,244,605	-
Change in net assets	(10,715)	797,411	653,549	197,440	4,519	1,642,204	(3,172)
Total net assets - beginning	<u>7,670,915</u>	<u>7,858,736</u>	<u>7,373,547</u>	<u>7,321,781</u>	<u>327,998</u>	<u>30,552,977</u>	<u>18,647</u>
Total net assets - ending	<u>\$ 7,660,200</u>	<u>\$ 8,656,147</u>	<u>\$ 8,027,096</u>	<u>\$ 7,519,221</u>	<u>\$ 332,517</u>	<u>32,195,181</u>	<u>\$ 15,475</u>

Adjustment to reflect the consolidation of internal services funds activities related to enterprise fund
Change in net assets of business-type activities

(2,792)
\$ 1,639,412

SALEM CITY

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2008

	Business-Type Activities - Enterprise			Non-Major Enterprise Fund		Governmental Internal-Service Fund
	Water Utility	Sewer Utility	Electric Utility	Pressurized Irrigation	Waste Utility	Total
Cash Flows From Operating Activities						
Receipts from customers	\$ 760,344	\$ 472,220	\$ 3,244,754	\$ 477,069	\$ 265,346	\$ 5,219,733
Payments to suppliers	(261,063)	(154,489)	(2,272,355)	(168,978)	(201,038)	(3,057,923)
Payments to general fund for services	(155,260)	(89,270)	(512,664)	(3,637)	(41,172)	(802,003)
Payments to employees	(89,277)	(111,031)	(445,677)	(203,445)	(13,923)	(863,353)
Net cash provided (used) by operating activities	254,744	117,430	14,058	101,009	9,213	496,454
Cash Flows From Noncapital Financing Activities						
Interfund activity	(68,986)	(65,979)	(109,268)	(4,248)	(4,248)	(252,729)
Net cash provided (used) by noncapital financing activities	(68,986)	(65,979)	(109,268)	(4,248)	(4,248)	(252,729)
Cash Flows From Capital and Related Financing Activities						
Impact fees	71,302	109,770	690,260	225,097	-	1,096,429
Cash received from loan proceeds	-	150,000	-	160,000	-	310,000
Purchase of equity in joint venture	-	(85,312)	-	-	-	(85,312)
Purchases of capital assets	(97,348)	(233,633)	(246,543)	(1,926,980)	(6,080)	(2,510,584)
Principal paid on debt	(287,000)	(18,000)	(379,676)	(40,000)	-	(724,676)
Interest paid on capital debt	(71,597)	(1,602)	(22,092)	(143,700)	-	(238,991)
Net cash provided (used) by capital and related financing activities	(384,643)	(78,777)	41,949	(1,725,583)	(6,080)	(2,153,134)
Cash Flows From Investing Activities						
Interest and dividends received	5,790	701	1,619	58,432	83	66,625
Net cash provided (used) by investing activities	5,790	701	1,619	58,432	83	66,625
Net increase (decrease) in cash and cash equivalents	(193,095)	(26,625)	(51,642)	(1,570,390)	(1,032)	(1,842,784)
Cash and cash equivalents - beginning	1,088,140	569,070	199,486	3,326,750	93,487	5,276,933
Cash and cash equivalents - end	\$ 895,045	\$ 542,445	\$ 147,844	\$ 1,756,360	\$ 92,455	\$ 3,434,149

See accompanying notes.

For the Year Ended June 30, 2008

	Business-Type Activities - Enterprise			Pressurized Irrigation	Non-Major Enterprise Fund		Total	Governmental Internal-Service Fund
	Water Utility	Sewer Utility	Electric Utility		Waste Utility			
\$	26,221	\$ (66,176)	\$ (278,472)	\$ 74,108	\$ 20,537	\$ (223,782)	\$ 15,707	
205,826	187,793	134,666	6,640	2,031		536,956	108,718	
22,879	-	4,426	2,709	-		30,014	-	
(19,098)	29,903	(25,706)	(4,657)	(5,237)		(24,795)	-	
4,427	-	199,381	-	-		203,808	-	
18,648	-	-	-	-		18,648	-	
(4,159)	(519)	(20,237)	22,209	(8,118)		(10,824)	1,964	
-	-	-	-	-		-	(18,648)	
-	(33,571)	-	-	-		(33,571)	-	
228,523	183,606	292,530	26,901	(11,324)		720,236	92,034	
\$	254,744	\$ 117,430	\$ 14,058	\$ 101,009	\$ 9,213	\$ 496,454	\$ 107,741	

Operating income
Adjustments to reconcile operating income to net cash provided (used) by operating activities:

Depreciation expense	
Amortization expense	
(Increase) decrease in accounts receivable	
(Increase) decrease in inventory	
(Increase) decrease in due from other funds	
Increase (decrease) in accounts payable	
Increase (decrease) in due to other funds	
Increase (decrease) in deferred revenue	
Total adjustments	
Net cash provided (used) by operating activities	

Non-cash items from capital and related financing activities include contributions by developers

\$	29,435	\$	820,956	\$	370,345	\$	23,869
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SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Salem City Corporation (the City) financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The City applies FASB pronouncements issued after that date to its business-type activities and enterprise funds. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Reporting Entity

Salem City Corporation was incorporated under laws of the State of Utah. Under the present form of government, administrative and legislative powers are vested in a governing body, consisting of the Mayor and a City Council. They are assisted by a Finance Director who is currently responsible for the financial matters of the City, including money management, accounts payable, financial statements, and accounts receivable.

The City provides the following services as mandated by law: Public Safety, Judicial Services, Highways and Streets, Sanitation, Parks, Cemetery, Water, Sewer, Electric, Waste Removal, Storm Drain, Public Improvements, Planning and Zoning, and General Administrative Services

Blended Component Units.

The Municipal Building Authority was created by the City during fiscal year 2002 and is governed by the City's Mayor and Council. The authority uses the proceeds of its tax-exempt bonds to finance the construction or acquisition of general capital assets for the City. The bonds are secured by a lease agreement with the City and will be retired through lease payments from the City. The financial statements of the Municipal Building Authority are included in the accompanying financial statements as a blended component unit.

The Municipal Building Authority is considered a blended component unit since the governing board is the same governing board of the City.

The Redevelopment Agency was created by the City during fiscal year 2009 and is governed by the City's Mayor and Council. The financial statements of the Redevelopment Agency are included in the accompanying financial statements as a blended component unit.

The Municipal Building Authority and Redevelopment Agency are presented as special revenue funds in the financial statements.

Complete financial statements for each of the individual component units may be obtained at the City's administrative offices.

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statements of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified basis of accounting. Revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after the year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt as well as expenditures related to compensated absences, claims, and judgments, which are recorded only when payment is due.

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

Property taxes, sales taxes, franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The *capital projects fund* is used to account for the construction of community projects.

The government reports the following major proprietary funds:

The *water fund* accounts for the activities of the City's water operations.

The *sewer fund* accounts for the activities of the City's sewer operations.

The *electric fund* accounts for the activities in the City's electric operations.

The *pressurized irrigation fund* accounts for the activities of the City's pressurized irrigation system.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statement. Exceptions to this general rule are payments to the general fund by the various enterprise funds for providing administrative services for such funds. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations.

Additionally, the government reports the following fund types:

Special Revenue Funds

Municipal Building Authority accounts for the activities of the municipal building authority.

Redevelopment Agency accounts for the activities of the Redevelopment Agency.

Permanent Fund

Perpetual Care accounts for the perpetual care of the cemetery.

Internal Service Funds

Motor Pool Fund accounts for the activities of the motor pool.

Data Processing Fund accounts for the activities of the data processing services.

Proprietary Funds

Waste Utility accounts for the activities of the waste removal.

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments consist of amounts deposited with Utah Public Treasurers' Investment Fund, treasury bills of the U.S. Government, and money market funds. Investments are stated at fair value, which approximates cost.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to either "due to/due from other funds".

3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Assets

Restricted assets are comprised of cash restricted for future payments of principal and interest on debt services.

Restricted resources rather than unrestricted resources are used first to fund related appropriations.

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

Donated capital assets are recorded at estimated fair market value at the date of donation. The infrastructure assets consist of the estimated value of the City's streets and roads at July 1, 2003, plus the costs of additions since that date.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and structures	25-40
Improvements other than buildings	20-25
Infrastructure	20
Machinery and equipment	5-10

6. Compensated Absences

Employees may accumulate sick leave. Those with accumulated leave in excess of 80 hours may be compensated.

7. Taxes

In Utah, county governments assess, levy, collect and disburse two principal types of tax: (1) personal property tax which is assessed on business assets other than real estate, and (2) tax on real estate and improvements. Business personal property and real estate taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on all business personal property on January 1st and real estate and improvement taxes are levied on January 1st and are payable by November 30th. The real property taxes that are due in November are reported as a receivable from property taxes on the financial statements. Because these taxes are not considered available to liquidate liabilities of the current period, they are offset by deferred revenue.

The City Council is authorized by state statute to levy a tax against all real and personal property located within its boundaries. The Council must set a tax rate by June 22nd each year. The County Treasurer, acting as a tax collector, must settle and disburse all tax collections to all taxing entities on a routine basis.

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

8. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the accrual debt proceeds received, are reported as debt service expenditures.

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. Use of Estimates

Presenting financial statements in conformity with Generally Accepted Accounting Principles requires management to make certain estimates concerning assets, liabilities, revenues, and expenses. Actual results may vary from these estimates.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets.

This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

Capital related items:

When capital assets (property, plant, and equipment) that are to be used in governmental activities are purchased or constructed, the cost of these assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the city as a whole.

Cost of capital assets	\$28,259,633
Accumulated depreciation	<u>(11,698,147)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>)	<u>\$16,561,486</u>

Long-term debt transactions:

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the fund statements. All liabilities (both current and long-term) are reported in the statement of net assets.

Bonds, notes, and capital leases payable	(\$ 3,883,463)
Bond interest payable	(47,379)
Other long-term payables	<u>(12,800)</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>(\$ 3,943,642)</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense."

Capital outlay	\$1,932,626
Depreciation expense	<u>(995,304)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 937,322</u>
Capital contribution by developers	<u>\$ 272,644</u>

SALEM CITY CORPORATION
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Another element of that reconciliation states, "The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities."

Debt issued or retired:

Principal paid on bonds and capital leases	\$ 123,156
Issuance cost amortization	<u>(6,840)</u>
Total debt retired	<u>\$ 116,316</u>

NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING

Annual budgets are prepared and adopted in accordance with the Uniform Fiscal Procedures Act adopted by the State of Utah. Once a budget has been adopted, it remains in effect until it has been formally revised. Furthermore, in accordance with state law, all appropriations lapse at the end of the budget year. If any obligations are contracted for and are in excess of adopted budget, they are not a valid or enforceable claim against the City. Budgets are adopted on a basis consistent with generally accepted accounting principles. All funds of the City have legally adopted budgets.

The City adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- A. On or before the first regularly scheduled meeting of the City Council in May, the City administrator, authorized under state statute to be appointed budget officer, submits a proposed operation budget. The operating budget includes proposed expenditures and the means of financing them.
- B. A public hearing is held at which time the taxpayers' comments are heard. Notice of the hearing is given in the local newspaper at least seven days prior to the hearing. Copies of the proposed budget are made available for public inspection ten days prior to the public hearing.
- C. On or before June 22nd, a final balanced budget must be adopted through passage of a resolution for the subsequent fiscal year beginning July 1st.
- D. Control of budgeted expenditures is exercised, under state law, at the departmental level. The City Administrator, however, acting as budget officer, has the authority to transfer budget appropriations between line items within any department of any budgetary fund. The City Council, by resolution, has the authority to transfer budget appropriations between the individual departments of any budgetary fund.

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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- E. Budget appropriations for any department may be reduced by resolution.
- F. A public hearing as required in B) above, must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increased by resolution without an additional hearing.
- G. Encumbrances lapse at year end. Encumbered amounts carry over to the following year and are subject to reappropriation. Therefore, no encumbrances are presented in the financial statements.

During the budget year, the City modified the budget on several occasions using the above procedures.

NOTE 4 – CASH, CASH EQUIVALENTS AND INVESTMENTS

A. Deposits

Deposits – Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. The City considers the actions of the Council to be necessary and sufficient for adequate protection of its uninsured bank deposits. City funds are deposited in qualified depositories as defined by the Act. The City does not have a deposit policy for custodial credit risk. As of June 30, 2009, the City's custodial credit risk for deposits were as follows:

<u>Depository Account</u>	<u>Custodial Credit Risk</u>	<u>Balance June 30, 2009</u>
Regular Checking Account	Insured	\$ 140,068
Savings and Other Deposits	Uninsured and uncollateralized	<u>2,012,224</u>
		<u>\$2,152,293</u>

B. Investments

The City's investments are managed through participation in the State Public Treasurer's Investment Fund. As of June 30, 2009, the City had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Utah Public Treasurers' Investment Fund	62 days average	\$2,600,229
Money Market Accounts	Less than 1 yr	<u>247,226</u>
		<u>\$2,847,455</u>

SALEM CITY CORPORATION
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Investments – Interest Rate Risk – The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, interest rate risk is managed by compliance to the Utah Money Management Act which provides guidance for handling depository and investing transactions in order to minimize interest rate risk.

Investments – Credit Risk – The City follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. City funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the City to invest in the Utah Public Treasurers' Investment Fund (PTIF), certificates of deposit, U.S. Treasury obligations, U.S. agency issues, high-trade commercial paper, bankers' acceptances, repurchase agreements, corporate bonds, restricted mutual funds, and obligations of governmental entities within the State of Utah.

The PTIF is invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the PTIF. The degree of risk of the PTIF depends upon the underlying portfolio. The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The City considers the actions of the Council to be necessary and sufficient for adequate protection of its investments. The City has no investment policy that would further limit its investment choices. The PTIF is unrated.

Investments – Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's entire \$247,226 of underlying securities are held by the investment's counterparty, not in the name of the City, not insured, and are not rated. The City does not have an investment policy for custodial credit risk.

NOTE 5 – RECEIVABLES

Receivables as of year end for the government's individual major fund and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

SALEM CITY CORPORATION
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	General	Water	Sewer	Electric	Pressurized Irrigation	Nonmajor Utility Solid Waste	Total
Receivables:							
Accounts	\$ -	\$71,800	\$ 49,888	\$242,794	\$ 46,356	\$ 27,470	\$ 438,308
Property Tax	359,000	-	-	-	-	-	359,000
Intergovernment	66,735	-	-	-	-	-	66,735
Other	28,376	-	-	-	-	-	28,376
	<u>\$454,111</u>	<u>\$71,800</u>	<u>\$ 49,888</u>	<u>\$242,794</u>	<u>\$ 46,356</u>	<u>\$ 27,470</u>	<u>\$ 892,419</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property Taxes (General Fund)	\$ -	\$305,310
Delinquent Property Taxes (General Fund)	39,603	
Electric Supplies (Electric Fund)	-	44,163
Total Deferred/Unearned Revenue	<u>\$ 39,603</u>	<u>\$349,473</u>

NOTE 6 – INTERFUND RECEIVABLES, PAYABLE AND TRANSFERS

The composition of interfund balances as of June 30, 2009 is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water Fund	Internal Service Funds	\$ 62,581
Capital Projects	Redevelopment Agency	20
Capital Projects	Municipal Building Authority	499

Inter fund Transfers:

	<u>Transfer Out</u>				
	<u>General</u>	<u>Construction</u>	<u>Nonmajor Govrnmntl.</u>	<u>Business Type</u>	<u>Total</u>
Transfer In:					
General	\$ -	\$ 84,000	\$ -	\$ 217,749	\$ 301,749
Construction	111,485	-	-	-	111,485
Nonmajor Govtl.	196,489	108,511	-	34,980	339,980
Business Type	-	-	-	-	-
Total Transfer Out	<u>\$ 307,974</u>	<u>\$ 192,511</u>	<u>\$ -</u>	<u>\$ 252,729</u>	<u>\$ 753,214</u>

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NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009 was as follows:

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 278,794	\$ 61,115	\$ -	\$ 339,909
Construction in progress	985,119		759,587	225,532
Total capital assets not being depreciated	<u>1,263,913</u>	<u>61,115</u>	<u>759,587</u>	<u>565,441</u>
Capital assets being depreciated:				
Buildings	1,073,515	1,989,951	-	3,063,466
Improvements	1,798,075	50,532	-	1,848,607
Machinery and equipment	2,163,884	99,733	-	2,263,617
Infrastructure	19,724,976	793,526	-	20,518,502
Total capital assets being depreciated	<u>24,760,450</u>	<u>2,933,742</u>	<u>-</u>	<u>27,694,192</u>
Less accumulated depreciation for:				
Buildings	221,530	25,733	-	247,263
Improvements	635,535	64,702	-	700,237
Machinery and equipment	1,439,535	158,081	-	1,597,616
Infrastructure	8,406,243	746,788	-	9,153,031
Total accumulated depreciation	<u>10,702,843</u>	<u>995,304</u>	<u>-</u>	<u>11,698,147</u>
Total capital assets, being depreciated, net	<u>14,057,607</u>	<u>1,938,438</u>	<u>-</u>	<u>15,996,045</u>
Governmental activities capital assets, net	<u>\$ 15,321,520</u>	<u>\$ 1,999,553</u>	<u>\$ 759,587</u>	<u>\$ 16,561,486</u>
Business-type activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 878,703	\$ 160,000	\$ -	\$ 1,038,703
Construction in progress	12,599,022	1,714,595	-	14,313,617
Water rights and stock	847,968	51,254	-	899,222
Total capital assets not being depreciated	<u>14,325,693</u>	<u>1,925,849</u>	<u>-</u>	<u>16,251,542</u>
Capital assets being depreciated:				
Buildings	23,251	-	-	23,251
Improvements	24,912,075	1,791,383	-	26,703,458
Machinery and equipment	492,605	37,960	-	530,565
Total capital assets being depreciated	<u>25,427,931</u>	<u>1,829,343</u>	<u>-</u>	<u>27,257,274</u>
Less accumulated depreciation for:				
Buildings	18,982	185	-	19,167
Improvements	4,332,167	508,125	-	4,840,292
Machinery and equipment	325,392	28,647	-	354,039
Total accumulated depreciation	<u>4,676,541</u>	<u>536,957</u>	<u>-</u>	<u>5,213,498</u>
Total capital assets, being depreciated, net	<u>20,751,390</u>	<u>1,292,386</u>	<u>-</u>	<u>22,043,776</u>
Business-type activities capital assets, net	<u>\$ 35,077,083</u>	<u>\$ 3,218,235</u>	<u>\$ -</u>	<u>\$ 38,295,318</u>

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 8 –LEASE COMMITMENTS

The City during 2004 executed a new lease for a Fire truck in the amount of \$133,876 payable in annual installments for 8 years.

The City during 2007 executed a new lease for a Bucket truck in the amount of \$136,980 Payable in annual installments for 6 years.

The City during 2007 executed a new lease for a Jet truck in the amount of \$286,510 Payable in annual installments for 8 years.

The City during 2008 executed a new lease for a Jet truck in the amount of \$160,929 Payable in annual installments for 5 years.

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Machinery & Equipment	\$718,205
Accumulated Amortization	<u>230,253</u>
Total	<u>\$487,952</u>

Amortization of capital assets purchased under capital leases is included in depreciation.

The City has acquired fixed assets financed with capital leases. The related lease agreements contain fiscal funding clauses that allow cancellation of the leases if future funding of the leases are not budgeted by the City Council.

The following is the present value of future minimum capital lease payments under these leases as of June 30, 2009:

Fiscal Year	Governmental Amount	Business-type Amount	Total Amount
2010	\$ 100,942	\$ 31,221	\$ 132,163
2011	100,941	31,221	132,162
2012	79,706	31,222	110,928
2013	79,703	-	79,703
2014	43,277	-	43,277
2015-2019	<u>43,277</u>	<u>-</u>	<u>43,277</u>
Total Minimum lease payments	\$ 447,846	\$ 93,664	\$ 541,510
Less amounts representing interest	<u>(52,383)</u>	<u>(7,660)</u>	<u>(60,043)</u>
Present value of minimum lease payments	<u>\$ 395,463</u>	<u>\$ 86,004</u>	<u>\$ 481,467</u>

SALEM CITY CORPORATION
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At June 30, 2009 the City's capital leases payable balance consisted of the following:

	Capital Leases Payable Governmental	Capital Leases Payable Business-type	Capital Leases Payable All Fund Types
Capital Leases Payable	\$ 395,463	\$ 86,004	\$ 481,467
Current Portion Capital Lease Payable	(100,942)	(31,221)	(132,163)
Long Term Capital Leases Payable	<u>\$ 294,521</u>	<u>\$ 54,783</u>	<u>\$ 349,304</u>

9. LONG-TERM DEBT

Bonds and notes payable at June 30, 2009, are comprised of the following:

Revenue Bonds

Water Revenue Bond Series 1991:

\$420,000 Water revenue bonds due in annual principal and interest
 Payments through January 2012 – with an interest rate of 4% \$86,000

Sewer Revenue Bond Series 1994:

\$322,500 Sewer revenue bond due in annual principal and interest
 Payments through October 2013 – with an interest rate of 2% \$87,986

Water Revenue Bond Series 1996

\$300,000 Water revenue bond due in annual principal payments
 through January 2017 – There is no interest on this bond \$78,875

Electric Revenue Bond Series 2000

\$1,165,000 Electric revenue bond due in annual principal and
 Semi annual interest payments through November 2010 – with
 a varying interest of 4.90-5.45% \$285,000

Secondary Water Revenue Bond – Series 2007

\$7,500,000 Secondary water revenue bond due in annual principal
 and interest payments through September 2037 – with an interest rate
 of 1.70% \$7,500,000

Excise Tax Revenue Bond – Series 2008

\$3,500,000 Excise tax revenue bond due in annual principal and
 Semi-annual interest payments through September 1, 2027 – with an
 Interest rate of 3.95% \$3,458,000

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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Fiscal Year	Revenue Bonds			
	Governmental		Business-Type	
	Principal	Interest	Principal	Interest
2010	\$ 145,000	\$ 133,727	\$ 208,000	\$ 144,402
2011	150,000	127,901	223,000	135,075
2012	155,000	121,877	90,000	129,355
2013	162,000	115,617	69,000	127,353
2014	167,000	109,119	80,861	126,361
2015-2019	953,000	437,680	409,000	614,448
2020-2024	941,000	243,340	1,060,000	558,365
2025-2029	785,000	63,536	1,566,000	452,047
2030-2034	-	-	2,234,000	297,500
2035-2039	-	-	2,098,000	88,859
Total	<u>\$ 3,458,000</u>	<u>\$ 1,352,796</u>	<u>\$ 8,037,861</u>	<u>\$ 2,673,765</u>

General Obligation Bond

General Obligation Refunding Water Bonds- Series 2004

\$2,735,000 General Obligation refunding bond with annual principal and semi-annual interest payments through March 2016 – with a varying interest rate 2.00-4.00%

\$1,930,000

Fiscal Year	General Obligation Bonds	
	Governmental	
	Principal	Interest
2010	\$ 250,000	\$ 65,963
2011	260,000	59,088
2012	265,000	51,288
2013	275,000	42,675
2014	285,000	33,050
2015-2019	595,000	35,275
Total	<u>\$ 1,930,000</u>	<u>\$ 287,338</u>

Notes Payable

During 2009 the City acquired a note for \$150,000 with Elk Ridge City to buy out a portion of a sewer treatment plant. The note requires annual principal payments through 2012 – there is no interest with this note.

\$150,000

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During 2009 the City acquired a note for \$30,000 for the purchase of land. this note requires an annual principal payment through 2010. – There is no interest with this note.

\$30,000

During 2008 the City acquired a note for \$160,000 to acquire land for the pressurized irrigation system. The note requires annual principal payments through 2012. – with a 6.00% interest rate.

\$120,000

Fiscal Year	Notes Payable		Business-Type	
	Governmental			
	Principal	Interest	Principal	Interest
2010	\$ 30,000	\$ -	\$ 90,000	\$ 7,200
2011	-	-	90,000	4,800
2012	-	-	90,000	2,400
Total	<u>\$ 30,000</u>	<u>\$ -</u>	<u>\$ 270,000</u>	<u>\$ 14,400</u>

The future annual requirements for all outstanding bond and note obligations as of June 30, 2009 are as follows:

Fiscal Year	All Bonds and Notes		
	Principal	Interest	Total
2010	\$ 723,000	\$ 351,292	\$ 1,074,292
2011	723,000	326,864	1,049,864
2012	600,000	304,920	904,920
2013	506,000	285,645	791,645
2014	532,861	268,530	801,391
2015-2019	1,957,000	1,087,403	3,044,403
2020-2024	2,001,000	801,705	2,802,705
2025-2029	2,351,000	515,583	2,866,583
2030-2034	2,234,000	297,500	2,531,500
2035-2039	2,098,000	88,859	2,186,859
Total	<u>\$ 13,725,861</u>	<u>\$ 4,328,299</u>	<u>\$ 18,054,160</u>

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Summary of changes in long-term debt is as follows:

	July 1 2008	Additions	Reductions	June 30 2009	Due in One Yr
Governmental Activities:					
Bonds Payable:					
Excise tax bonds	\$ 3,500,000	\$ -	\$ 42,000	\$ 3,458,000	\$ 145,000
Note Payable	30,000	-	-	30,000	30,000
Capital leases	476,619	-	81,156	395,463	100,942
Compensated absences	10,745	2,055	-	12,800	
Gov't Activities long-term Debt	<u>\$ 4,017,364</u>	<u>\$ 2,055</u>	<u>\$ 123,156</u>	<u>\$ 3,896,263</u>	<u>\$ 275,942</u>
Business Type Activities:					
Bonds Payable:					
Revenue Bonds	\$ 8,227,861	\$ -	\$ 190,000	\$ 8,037,861	\$ 208,000
General Obligation Bonds	2,175,000	-	245,000	1,930,000	250,000
Capital leases	112,295	-	26,291	86,004	31,221
Notes Payable		270,000	-	270,000	90,000
Business-type Activities long-term Debt	<u>\$ 10,515,156</u>	<u>\$ 270,000</u>	<u>\$ 461,291</u>	<u>\$ 10,323,865</u>	<u>\$ 579,221</u>

10. RETIREMENT PLANS

Local Governmental - Cost Sharing

Plan Description. Salem City Corporation contributes to the Local Governmental Contributory Retirement System and Local Governmental Noncontributory Retirement System for employers with Social Security coverage, Firefighters Retirement System which are for employers without Social Security coverage cost-sharing multiple-employer defined benefit pension plans administered by the

Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, Public Safety Retirement System for employers with Social Security coverage, and Firefighters Retirement System which are for employers without Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

SALEM CITY CORPORATION
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Funding Policy. Salem City Corporation is required to contribute to the Local Government Noncontributory Retirement System 11.62% of the Plan members' annual covered salary. In the Public Safety Retirement System for employers with Social Security coverage noncontributory division members are required to contribute 22.61% of their salary (all or part may be paid by the employer for the employee). The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The Salem City Corporation contributions to the Local Governmental Noncontributory Retirement System for June 30, 2009, 2008 and 2007 were \$147,611, \$138,711, and \$107,771 respectively, and for the Public Safety Retirement System the contributions for June 30, 2009, 2008 and 2007 were \$83,724, \$72,899, and \$56,399 respectively, and for the 401K Plan System the contributions for June 30, 2009, 2008, and 2007 were \$52,812, \$48,129, and \$39,853 respectively. The contributions were equal to the required contributions for each year.

11. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the City to purchase commercial insurance for these risks. Various policies are purchased through an insurance agency to cover liability, theft, damages, and other losses. A minimal deductible applies to these policies which the City pays in the event of any loss. The City also has purchased a workers' compensation policy. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

12. JOINT VENTURES

South Utah Valley Solid Waste District

Salem City joined in a joint venture with several other municipalities to create the South Utah Valley Solid Waste District (the District). The District was created for the purpose of building a landfill and transfer station and operating the same for the benefit of member municipalities. The majority of the District's sanitation service revenue comes from these governmental entities.

Additional information is as follows:

a. Participants and their percentage shares:

Spanish Fork City Corporation	11.750%
Provo City Corporation	69.750%
Springville City Corporation	15.000%
Mapleton City Corporation	2.000%
Salem City Corporation	1.500%
Goshen Town (Landfill participant only)	0.000%
	<u>100.000%</u>

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- b. The District is governed by a Board of Directors which is comprised of six directors. The Mayor and City Council of each member City appoints one director. All decisions of the Board are by majority vote, except in the case of a tie. In a tie, the votes would be taken by tonnage. For Provo to prevail in a tie vote they would need one additional city to vote with them.
- c. The District's Board of Directors governs the operations of the District through management employed by the Board. Since the District is subject to the same laws as the creating entities, it must follow State law for cities in the areas of fiscal management, budgeting, and financing.
- d. Unaudited summary financial information of the District at June 30, 2009 is as follows:

	South Utah Valley Solid Waste District	Salem City's Share 1.50%
Total Assets	\$ 16,377,634	\$ 245,665
Total Liabilities	\$ 3,444,934	\$ 51,674
Total Equity	\$12,932,700	\$ 193,991
Total Operating Revenues	\$ 4,558,734	\$ 68,381
Total Operating Expenses	5,310,562	79,658
Net Operating Income	(751,828)	(11,277)
Total Non-Operating Income (Expense)	(38,378)	(576)
Change in Net Assets	(\$ 790,206)	(\$ 11,853)

- e. The joint venture has the following long-term debt:

	Total Amount	Salem City's Share
Closure and Post-Closure Liability	\$2,890,407	\$ 42,254
Accrued Compensated Absences	235,057	3,023
Capital leases	-	-
Total Long Term Liabilities	\$3,125,464	\$ 45,277

- f. Audited financial statements for South Utah Valley Solid Waste District are available at the District's office.

South Utah Valley Municipal Water Association

Salem city is member of South Utah Valley Municipal Water Association, a separate legal entity and political subdivision of the State of Utah, which was formed pursuant to the provision of the inter-local cooperation act. The association consists of 10 municipalities and was formed to plan, finance, acquire, construct, improve, operate, or maintain projects for the water and waste water treatment facility.

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Salem City has invested \$213,181 toward the purchases of the wastewater treatment property. This payment is shown as equity in a joint venture.

The complete financial statements for South Utah Valley Municipal Water Association may be obtained from the manager of finance at 40 South Main, Spanish Fork, Utah 84660.

13. RESTRICTED FUND BALANCES

General Fund

An amount is set aside for Impact Fees not yet expended	\$390,923
Unspent portion of "C" Road Funds	<u>41,623</u>
	<u>\$432,546</u>

14. OTHER DISCLOSURES

Excess of Expenditures Over Appropriations

Utah law requires that actual expenditures shall not exceed budgeted appropriations for any department of the general fund. Actual expenditures did exceed the General Fund budget in the Parks and Recreation department by \$33,533. The general fund budget as a whole was under-spent by \$339,667.

The Redevelopment Agency's total expenditures of the fund exceeded budget amounts by \$340,000. The Municipal Building Authority's total expenditures of the fund exceeded budget amounts by \$2,898. The Capital Projects fund's total expenditures of the fund exceed the budget amounts by \$1,347,972.

15. SEGMENT INFORMATION FOR INTERNAL SERVICE FUNDS

The City maintains Internal Service Funds which provide motor pool and data processing services. Selected unaudited information for these funds for the year ended June 30, 2009 is as follows:

	Motor Pool	Data Processing	Total
Operating Revenues	\$ 355,013	\$ 0	\$ 355,013
Depreciation and Amortization	(108,718)		(108,718)
Other Operating Expenses	(230,588)	(0)	(230,588)
Operating Income (Loss)	15,707	0	15,707
Non-Operating Revenue (Expense)	(18,879)	0	(18,879)
Net Increase (Decrease) in Retained Earnings	(\$ 3,172)	\$ 0	(\$ 3,172)
Property & Equipment (Net of Depreciation)	\$ 424,371	\$ 0	\$ 424,371
Total Assets	424,371		424,371
Total Liabilities	414,499	(5,603)	408,896
Total Fund Equity	9,872	5,603	15,475

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

16. REDEVELOPEMENT AGENCY

The Redevelopment agency of Salem City is established to further public purposes in the redevelopment of certain City areas. For the year ended June 30, 2009 the following activity occurred in the City's Redevelopment Agency:

Transfer of funds from other funds	\$339,980
Amounts paid for the installation of public utilities and Other public improvements	\$340,000

17. SUBSEQUENT EVENTS

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through December 31, 2009, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

SALEM CITY

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances -Budget and Actual For the Year Ended June 30, 2009

	Budget Amounts		General Fund	Variances with Final Budget
	Original Budget	Final Budget		Positive (Negative)
REVENUES				
Taxes	\$ 1,420,000	\$ 1,381,000	\$ 1,276,136	\$ (104,864)
Licenses and permits	213,000	101,550	195,456	93,906
Intergovernmental	592,280	419,985	281,459	(138,526)
Charges for services	1,359,850	1,314,375	1,456,446	142,071
Fines and forfeitures	30,000	33,000	31,691	(1,309)
Miscellaneous revenue	15,000	607,033	193,091	(413,942)
Total revenue	<u>3,630,130</u>	<u>3,856,943</u>	<u>3,434,279</u>	<u>(422,664)</u>
EXPENDITURES				
Current:				
General government	1,250,336	1,416,757	1,216,986	199,771
Public safety	1,228,674	1,120,019	1,109,885	10,134
Highways and public works	286,744	335,599	172,304	163,295
Parks and recreation	887,576	1,041,768	1,075,301	(33,533)
Total expenditures	<u>3,653,330</u>	<u>3,914,143</u>	<u>3,574,476</u>	<u>339,667</u>
Excess revenues over (under) expenditures	(23,200)	(57,200)	(140,197)	(82,997)
Other financing sources (uses)				
Sale of assets	2,000	36,000	56,353	20,353
Transfers in	21,200	21,200	301,749	280,549
Transfer out	-	-	(307,974)	(307,974)
Net change in fund balance	-	-	(90,069)	(90,069)
Fund balances - beginning of year	665,798	665,798	665,798	
Fund balances - end of year	<u>\$ 665,798</u>	<u>\$ 665,798</u>	<u>\$ 575,729</u>	<u>\$ (90,069)</u>

SUPPLEMENTAL INFORMATION

SALEM CITY
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2009

	Special Revenue Funds		Permanent Fund	Total Non-Major Governmental Fund
	Redevelopment Agency	Municipal Building Authority	Perpetual Care	
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ 74,526	\$ 74,526
Due from other funds	-	-	-	-
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,526</u>	<u>74,526</u>
LIABILITIES AND FUND BALANCES				
Due to other funds	20	499	-	519
Total Liabilities	<u>20</u>	<u>499</u>	<u>-</u>	<u>519</u>
Fund balances:				
Unreserved fund balance	(20)	(499)	74,526	74,007
Total fund balances	<u>(20)</u>	<u>(499)</u>	<u>74,526</u>	<u>74,007</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,526</u>	<u>\$ 74,526</u>

SALEM CITY

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Non-Major Governmental Funds

For the Year Ended June 30, 2009

	Special Revenue funds		Permanent Fund	Total Non-major Governmental Funds
	Redevelopment Agency	Municipal Building Authority	Perpetual Care	
REVENUES:				
Intergovernmental	\$ -	\$ 65,904	\$ 1,865	\$ 67,769
Investment earnings	-	-	1,017	1,017
Total	-	65,904	2,882	68,786
EXPENDITURES:				
Current:				
Tax increment Distributions	340,000	-	-	340,000
Debt service:				
Principal retirement	-	21,000	-	21,000
Interest and fiscal charges	-	47,795	-	47,795
Total	340,000	68,795	-	408,795
Excess of revenues over (under) expenditures	(340,000)	(2,891)	2,882	(340,009)
Other financing sources (uses)				
Transfers in	339,980	-	-	339,980
Net change in fund balance	(20)	(2,891)	2,882	(29)
Fund balances - begin	-	2,392	71,644	74,036
Fund balances - end	\$ (20)	\$ (499)	\$ 74,526	\$ 74,007

OTHER REPORTS



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JAMES E. STEWART, CPA

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Mayor and City Council
Salem City Corporation
Salem, UT

December 31, 2009

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Salem City Corporation as of and for the year ended June 30, 2009, which collectively comprise the City of Salem's basic financial statements and have issued our report thereon dated December 31, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Salem City Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Salem City Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Salem City Corporation's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider deficiencies described in the accompanying Schedule of Significant Deficiencies to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Salem City Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of Salem City Corporation in a separate letter dated December 31, 2009.

Salem City Corporation's response to the findings identified in our audit is described in the accompanying Schedule of Significant Deficiencies. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of management, Utah State Auditor and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


GILBERT & STEWART
Certified Public Accountants

SALEM CITY
SCHEDULE OF FINDINGS
JUNE 30, 2009

Significant Deficiencies in Internal Control:

2009-1 – Preparation of Financial Statements

The City may not have an employee with certain expertise to draft the City's basic financial statements and related footnotes. The auditor, with oversight from management, drafts the financial statements and footnotes. Management then reviews and accepts responsibility for the financial statements. Management should make efforts to gain as much expertise as possible regarding the preparation of the basic financial statements and footnotes to ensure that they are qualified to review, approve and accept responsibility for the financial statements.

City's Response: Management will gain expertise in the preparation of the financial statements and footnotes to ensure they are qualified to review, approve and accept responsibility for the statements.

2009-2 – Adjustments to accrual Basis of Accounting

The City does not currently post all year-end adjusting journal entries necessary to adjust the financial statements to the accrual basis of accounting. The auditor, with oversight from management, recommends adjusting journal entries to the City to adjust the financial statements to the accrual basis of accounting.

City's Response: The City will strive to post year end journal entries and convert the books to the accrual basis of accounting.



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**INDEPENDENT AUDITOR'S REPORT
ON LEGAL COMPLIANCE WITH APPLICABLE
UTAH STATE LAWS AND REGULATIONS**

Honorable Mayor and City Council
Salem City Corporation
Salem, UT

December 31, 2009

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Salem City Corporation, for the year ended June 30, 2009, and have issued our report thereon dated December 31, 2009. As part of our audit, we have audited Salem City Corporation's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2009. The City received the following major assistance programs from the State of Utah:

B & C Road Funds (Department of Transportation)
Liquor Law Enforcement (Utah State Tax Commission)

Our audit also included testwork on the City's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt	Truth in Taxation & Property Tax Limitations
Cash Management	Other General Compliance Issues
Purchasing Requirements	Uniform Building Code Standards
Budgetary Compliance	Asset Forfeiture
Impact Fees	Utah State Retirement Systems

The management of Salem City Corporation is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

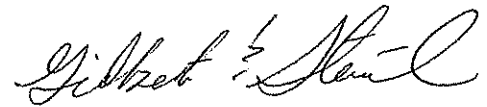
Our audit does not provide a legal determination on the City's compliance with these requirements.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying communication with those charged with governance letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Salem City Corporation complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2009.

The City's written response to the findings identified in our audit is described in the accompanying communication with those charged with governance letter. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of management of the City and the Utah State Auditor, and is not intended to be and should not be used by anyone other than these specified parties. However the report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script, likely reading "Gilbert & Stewart", is positioned above the printed name of the firm.

GILBERT & STEWART
Certified Public Accountants

SALEM CITY CORPORATION
CORRESPONDANCE WITH THOSE
CHARGED WITH GOVERNANCE

JUNE 30, 2009



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Honorable Mayor and City Council
Salem City Corporation
Salem, UT

December 31, 2009

We have audited the financial statements of the governmental activities, they business-type activities, each major fund, and the aggregate remaining fund information of Salem City Corporation for the year ended June 30, 2009, and have issued our report thereon dated December 31, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated August 25, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Salem City Corporation. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Salem City Corporation's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Salem City Corporation are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future

events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the capital assets' useful life is based on the historical life of similar assets. We evaluated the key factors and assumptions used to develop the capital assets' useful life in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 31, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

The following matters are items noticed during our audit which related to Utah State compliance issues:

Utah State Compliance Findings-Current Year

09-1 Fund Balance Requirements

Finding: The State law requires the unrestricted fund balance of the general fund to be at least 5% and not more than 18% of the estimated budgeted revenues of the general fund. We noted that the general fund unrestricted fund balance was \$24,414 less than the needed \$167,597 to meet the minimum 5% test.

Recommendation: We recommend that the City make the necessary budget adjustments, and monitor the fund balance to ensure that they are in compliance.

City's Response: We concur with the auditors recommendations and will make the necessary adjustments.

09-2 General Compliance - Budgetary Compliance

Finding: Utah State law prohibits the City from incurring expenditures in excess of those budgeted. We noted the City had expenditures in excess of appropriations as follows:

<u>General Fund</u>	
Parks and Recreation	\$33,533
<u>Redevelopment Agency</u>	\$340,000
<u>Municipal Building Authority</u>	\$2,898
<u>Capital Projects Fund</u>	\$1,347,972

Recommendation: We recommend that the City monitor budgeted expenditures and make necessary adjustment to be in compliance with State law.

City's Response: We concur with the auditors recommendations and will make the necessary adjustments.

09-3 General Compliance – Fund Balance

Finding: Utah State law prohibits the City from having a negative fund balance in a fund. The following funds reported a negative fund balance:

Redevelopment Agency	\$20
Municipal Building Authority	\$499

Recommendation: We recommend the City make necessary adjustments to bring the fund balance into compliance with State Law.

City's Response: We concur with the auditors recommendations and will make the necessary adjustments.

Utah State Compliance Findings – Prior Year

08-1 Fund Balance Requirements

Finding: The State law requires the unrestricted fund balance of the general fund to be at least 5% and not more than 18% of the estimated budgeted revenues of the general fund. We noted that the general fund unrestricted fund balance was \$128,585 less than the needed \$181,606 to meet the minimum 5% test.

Recommendation: We recommend that the City make the necessary budget adjustments, and monitor the fund balance to ensure that they are in compliance.

Current Status: See current year finding 09-1

08-2 Treasurers Bond

Finding: State law requires the City to acquire a treasury bond with an amount sufficient based on the previous years budgeted gross revenues. We noted that the treasury bond coverage was \$24,678 less than the needed coverage.

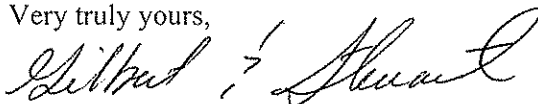
Recommendation: We recommend that the City acquire additional treasurer bond coverage to ensure compliance with State law.

Current Status: The City is in compliance.

We thank you for the opportunity to serve the Salem City Corporation. City personnel were very helpful in providing required documentation and information during our audit. Management is providing information and services to the City in an efficient and competent manner. If you have any questions regarding the above information or our audit please call.

This information is intended solely for the use of the City Council and management, and is not intended and should not be used by anyone other than these specified parties.

Very truly yours,


GILBERT & STEWART
Certified Public Accountants